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H8: Brexit – what happened next?

Charlotte Midford
Standard Life International

Chris Scott
Phoenix Life Finance



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Introduction

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Background

Our Brexit transaction

Rationale

- To safeguard our ability to:
 - serve our EU27 customers; and
 - sell in the EU27 markets where we are active
- Customer experience as close to unchanged as practically possible
- In order to achieve this a solution was chosen that involved:
 - a part VII insurance business transfer of all euro denominated business to SLIDAC; and
 - a sophisticated reinsurance solution that reinsured the business of 3 with-profits funds to SLAL.



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Business transferred

Best Estimate Liabilities, €bn incl. Technical Provisions as a Whole Q1 2019



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Main elements of our Brexit solution

- Part VII transfer Schemes
 - a scheme to transfer the business from SLAL to SLIDAC
 - amendments to our existing Scheme of Demutualisation and another existing scheme from 2011

- Three reinsurance agreements and one retrocession agreement

- Three deed polls and a court undertaking

- A fixed and a floating charge to support the reinsurance arrangements



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SLIDAC

- Authorisations for classes I, IV & VII in addition to class III and VI, as classified by Annex II of the solvency II Directive
- Reporting currency change
- From writing offshore business only to a larger entity with
 - c.€14.7 bn BEL of WP business
 - c. € 6.4 bn BEL of non-profit business
- Large Operational Design implications, with a German branch and an Austrian sales office
 - significantly increase Finance, Risk and Actuarial teams
 - c.240 FTE in Germany, with Actuarial staff chiefly in Finance and product
- A significantly larger actuarial team in Dublin with an in-house Head of Actuarial Function



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What did this mean for the actuarial function

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Where to start?

The saying 'to fail to plan is to plan to fail' seemed very relevant here, so we started by considering the deliveries and then working through:

- What is needed to support these
- Understanding of the business in the context of the deliveries
- Who / what / where / when – the Actuarial Function reports themselves seem small, but much is needed to be able to complete them
- What already exists; what else do we need; what of this is likely to be time intensive
- What can support us (e.g. external Head of Actuarial Function and reports they produce; SLAL reports on the same business; expertise from Phoenix Group)



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Regulatory context

- Irish and German Business moved from UK to Irish regulation.
 - Solvency II gives common basis
 - Domestic Actuarial Regime
 - Probability Risk and Impact System (PRISM) impact
- Moving from external to internal Head of Actuarial Function:
 - Head of Actuarial Function reports and opinions
 - Actuarial Report on Technical Provisions (ARTP) and Actuarial Opinion on Technical Provisions (AOTP)
 - Reinsurance and underwriting
 - Own Risk and Solvency Assessment (ORSA)
 - With-profits (new)
 - Duties in addition to those from the Domestic Actuarial Regime
 - Oversight of Solvency Capital Requirement (SCR) Calculations
 - Oversight of Capital Management



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Nature of the business

- **Product:**

one simple product suite - > Multi product suit current offering + complex heritage book
- **Process:**

larger infrastructure; new activities e.g. underwriting; new regulatory and legal environments etc.
- **Reinsurance:**

Complex internal arrangements + other external arrangements
- **People:**

Cross territory; multi-lingual; cultural differences; enlarged teams and with new staff



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Moving the Head of Actuarial Function in-house

- The Head of Function
- The team that supports the Head of Function:
 - provide oversight
 - prepare opinions and reports
 - engage with and provide actuarial support for the wider management of the business
- Developed using a combination of:
 - new staff to supplement existing teams
 - experience and knowledge of processes both locally and elsewhere in the group
 - existing staff from within the Group experienced in the business that transferred to SLIDAC from SLAL
 - transition period
 - extensive support from external HoAF
 - experience of Brexit report production
- Establishment of new and evolution of current relationships between Actuarial, Risk, and Finance

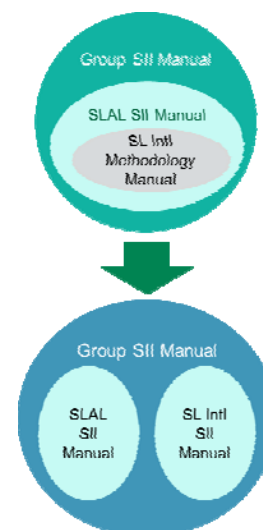


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Modelling and methodology

- Standard Formula company
- Full SII Manual for SL Intl
 - over 130 documents
 - covering all areas of actuarial methodology, risk management framework, data and systems management etc.
- Build on pre-transfer SLAL methodology
 - adapt for SL Intl context e.g. materiality in the smaller entity
- Step-change in number and complexity of actuarial models and tools:
 - single deterministic Risk Agility Financial Modeler (RAFM) model, supplemented by spreadsheet models pre Part-VII Transfer
 - suite of seven RAFM Models, including a stochastic model, supported by ESGs, asset stressing tools and larger suite of spreadsheet models and tools post Part VII Transfer
- Controls required to support the new complexity



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With-profit operating principles

- Requirement from Domestic Actuarial Regime §3.1.3
- Very similar to Principles in UK Principles and Practices Financial Management (COBS 20)
- Clear and simple language likely to be understood by the average customer
- Per fund
- Similar requirements in our Schemes
- Practicalities
 - management of 3 similar requirements
 - translations
 - local context



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Not just what, but how

Practical and people aspects

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Practicalities

- Working over distance, not new for SLIDAC but:
 - for much more complex business
 - Germany and Austria as well as UK and Ireland
 - new cross site teams and reporting lines
- Reporting on changed business
 - larger
 - varied
 - complex internal reinsurance structure



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Process, controls and more controls

- Post Part-VII Transfer operating model relies on teams in Ireland, Germany and UK working closely together to carry out all specialist actuarial activity, where previously all SL Intl Actuarial Activity was primarily done in Dublin, with some UK support
- Larger, more complex end-to-end processes means more hand-offs between different teams and need for new controls
- New processes mapped out during Brexit Programme
 - using in practice for the first time
 - refining through experience



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Communication

- Small things make a difference
- Telephones and VC
 - Timing
 - Speed and papers
 - Allow for language differences
- Building teams, relationships and trust
 - Face to face meetings
 - Understanding 'everything is not just the same as at home' (wherever home is for you)
 - What is motivating the other person



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Wider context

- Rare opportunity post-implementation of Solvency II to develop and embed a new actuarial function
- Creating strong, multi-skilled actuarial team for the future
- Technical exposure to nearly all actuarial disciplines, with support from technical specialists in the UK
- Build strong links between Actuarial Function, Finance, Risk and Proposition from the outset as all areas work together to set up and embed new processes



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